

Dundee Community Schools

Dundee, Michigan

FINANCIAL STATEMENTS

For The Year Ended
June 30, 2006



REHMANN ROBSON

Certified Public Accountants

DUNDEE COMMUNITY SCHOOLS

For the Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

August 30, 2006

Board of Education
Dundee Community Schools
Dundee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **DUNDEE COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dundee Community Schools, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dundee Community Schools' basic financial statements. The combining fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

Fiscal Year 2006

School Year 2005-2006

As management of the Dundee Community School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$5,561,023 (net assets). Of this amount, \$1,366,586 (unrestricted net assets) may be used to meet the district's ongoing obligations for educational programs.
- The district's total net assets increased \$88,069.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$6,063,661, an increase of \$433,936 in comparison with the prior year. Approximately 91% or \$5,503,368 is available for spending at the district's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,784,538 or 14% percent of total general fund expenditures.
- Investments for the future were made by the spending of approximately \$415,963 on school improvements, vehicles and equipment. No new debt was issued to finance these projects.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, food service, athletics, debt service and capital outlay. The District has no business-type activities as of and for the year ended June 30, 2006.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and debt service funds, each of which are considered to be a major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund herein to demonstrate compliance with that budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a district's financial position. In the case of the District, assets exceeded liabilities by \$5,561,023 at the close of the most recent fiscal year.

District's Net Assets

	Governmental Activities	
	June 30, 2005	June 30, 2006
Current and other assets	\$ 8,045,881	\$ 7,940,368
Capital assets, net	33,288,496	32,810,810
Total assets	<u>41,334,377</u>	<u>40,751,178</u>
Long-term liabilities outstanding	33,580,966	33,149,204
Other liabilities	2,280,457	2,040,951
Total liabilities	<u>35,861,423</u>	<u>35,190,155</u>
Net assets:		
Invested in capital assets, net of related debt	1,869,813	1,692,443
Restricted	2,137,180	2,501,994
Unrestricted	<u>1,465,961</u>	<u>1,366,586</u>
Total net assets	<u>\$ 5,472,954</u>	<u>\$ 5,561,023</u>

A portion of the District's net assets (30 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the District's net assets (45% or \$2,501,994) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (25% or \$1,366,586) may be used to meet the district's ongoing obligations to its programs. The \$1.4 million in unrestricted net assets of the governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets. The same held true for the prior fiscal year.

The results of this year's operation for the District as a whole are reported in the statement of activities, which shows the changes in net assets for the fiscal year 2006. The District has prepared financial statements following GASB Statement No. 34, revenue and expense comparison for fiscal year 2006.

District's Changes in Net Assets

	Governmental Activities	
	2004/05	2005/06
Revenue:		
Program revenue:		
Charges for services	\$ 703,072	\$ 879,888
Operating grants and contributions	1,174,939	1,633,269
General revenue:		
Property taxes	4,639,167	5,109,359
State school aid	8,545,759	8,954,637
Grants and contributions not restricted to specific programs	404,117	391,183
Other	28,975	56,531
Total revenue	<u>15,496,029</u>	<u>17,024,867</u>
Expenses:		
Instruction	7,427,941	7,877,739
Support services	5,521,187	5,383,503
Community services	58,928	50,279
Athletics	390,325	348,242
Food Service	640,631	723,490
Transfers to other districts	93,798	110,013
Depreciation - unallocated	894,757	893,649
Interest on long-term debt	1,721,824	1,549,883
Total expenses	<u>16,749,391</u>	<u>16,936,798</u>
Increase (decrease) in net assets	(1,253,362)	88,069
Net assets, beginning of year	<u>6,726,316</u>	<u>5,472,954</u>
Net assets, end of year	<u>\$ 5,472,954</u>	<u>\$ 5,561,023</u>

Governmental activities. Net assets increased by \$88,069. The key elements of this decrease are as follows:

- The control of expenditures district-wide.
- Reduction in State Aid.
- Increased costs for Instructional Services and Support Services
 - o Contractual Obligations
 - o Rising Health Care Costs
 - o State Mandated Increases in Employer Retirement Contribution

Financial Analysis of the Government's Funds

Governmental funds. The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$6,063,661, an increase of \$433,936 in comparison with the prior year. Approximately 91% of this total amount (\$5,503,368) constitutes unreserved fund balance, which is available for spending at the district's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,784,538. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 14% of the total general fund expenditures and total fund balance represent approximately 18% percent of total general fund expenditures.

The unreserved fund balance of the District's general fund decreased by \$183,977 during the current fiscal year and the total fund balance of the District's general fund decreased by \$140,031.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in these financial statements.

Differences between the original and final amended budgets related to updates in salaries and benefits costs and student count for the District. Once this additional information was known, subsequent budget amendments recognized the additional revenue and additional planned expenditures and the individual various District program budgets were adjusted accordingly.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2006, amounted to \$32,810,810 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

Long term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$29,570,719. This amount represents both general obligations of the District that do constitute an indebtedness of the District within any constitutional or statutory limitations (1996 and 2000 debt issues), and those that are not general obligations of the District, and is payable solely from state aid payments from the State of Michigan (Durant bonds).

In addition, the District has additional bonded debt of \$4,043,372 through the Michigan School Bond Loan Fund. This debt is also a general obligation of the District.

The District's total debt decreased by \$431,762 during the current fiscal year, due primarily to repayments on long-term obligations.

Factors Bearing on the District's Future

Our elected school board officials and administration consider many factors when setting the District's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 20 percent and 80 percent of the February 2006 and September 2005 student counts, respectively. The 2007 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 92% of all revenues received by the District are directly related to the foundation allowance (72% from the state and 20% from non-homestead local property taxes). Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-07 school year, we anticipate that the fall student count will equal the estimates used in creating the 2006 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. The last conference was held in October of 2006 and, at that time, the State estimated that funds were sufficient to fund the foundation allowance with an approximate \$175 (2.6%) per student increase in the membership foundation. At the time that this audit report is being prepared, we have been given many indications that the economy is still not recovering as quickly as previously anticipated by the State. The dire news concerning the auto industry and recent layoffs and auto parts supply industry are raising serious questions about the stability of taxes that support the State School Aid Fund. There are currently serious predictions about tax collection shortfalls at the State level for future years. These tax collection shortfalls will negatively affect the State School Aid Fund which in turn will negatively affect the revenues for our school district. This leaves our school district face-to-face with three years (2004-05, 2005-06, 2006-07) the State has paid schools a foundation of \$6,875, a \$175 or 2.6% increase. With the increases the schools have had to accommodate increased contractual obligations, skyrocketing health care costs (12%-15% per year), mandated State retirement increases (1%-3% per year) and escalated utility increases (10%-20% per year), it leaves the school in a very precarious financial position.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Dundee Community Schools' Business Office, 420 Ypsilanti Street, Dundee, MI 48131.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Dundee Community Schools
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,702,937
Investments	920,000
Receivables	1,947,024
Deferred charges	370,407
Capital assets, net	<u>32,810,810</u>
 Total assets	 <u>40,751,178</u>
Liabilities	
Accounts payable and accrued liabilities	2,004,438
Unearned revenue	36,513
Long-term debt:	
Due within one year	1,125,022
Due in more than one year	<u>32,024,182</u>
 Total liabilities	 <u>35,190,155</u>
Net assets	
Invested in capital assets, net of related debt	1,692,443
Restricted for:	
Debt service	807,924
Capital projects	910,834
Other purposes	783,236
Unrestricted	<u>1,366,586</u>
 Total net assets	 <u><u>\$ 5,561,023</u></u>

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Statement of Activities
For the Year Ended June 30, 2006

Functions / Programs	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 7,877,739	\$ -	\$ 1,439,426	\$ (6,438,313)
Support services	5,383,503	182,189	1,342	(5,199,972)
Community services	50,279	15,290	-	(34,989)
Athletics	348,242	109,817	-	(238,425)
Food service	723,490	542,867	192,501	11,878
Transfers to other districts	110,013	-	-	(110,013)
Depreciation - unallocated	893,649	-	-	(893,649)
Interest on long-term debt	1,549,883	29,725	-	(1,520,158)
Total governmental activities	<u>\$ 16,936,798</u>	<u>\$ 879,888</u>	<u>\$ 1,633,269</u>	<u>(14,423,641)</u>
General revenues:				
Property taxes				5,109,359
State school aid				8,954,637
Grants and contributions not restricted to specific programs				391,183
Unrestricted investment earnings				<u>56,531</u>
Total general revenues				<u>14,511,710</u>
Change in net assets				88,069
Net assets, beginning of year, as restated				<u>5,472,954</u>
Net assets, end of year				<u><u>\$ 5,561,023</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

Dundee Community Schools
Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	Debt Service- 2005	Capital Projects- 2000	Capital Projects- General	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 1,771,929	\$ 1,213,650	\$ 1,127,725	\$ 125,351	\$ 464,282	\$ 4,702,937
Investments	120,000	-	-	800,000	-	920,000
Accounts receivable	1,848,607	-	-	-	98,417	1,947,024
Due from other funds	48,008	7,444	-	-	85,024	140,476
<u>TOTAL ASSETS</u>	\$ 3,788,544	\$ 1,221,094	\$ 1,127,725	\$ 925,351	\$ 647,723	\$ 7,710,437
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Accounts payable	\$ 207,707	\$ -	\$ -	\$ -	\$ 438	\$ 208,145
Salaries payable	926,164	-	-	-	-	926,164
Due to other funds	23,570	26,384	-	14,517	76,005	140,476
Due to other governments	220,725	-	-	-	-	220,725
Deferred revenue	65,547	-	-	-	85,719	151,266
Total liabilities	1,443,713	26,384	-	14,517	162,162	1,646,776
Fund Balances						
Reserved for special purposes	170,250	-	-	-	-	170,250
Reserved for claims	390,043	-	-	-	-	390,043
Unreserved						
Undesignated	1,784,538	1,194,710	1,127,725	910,834	-	5,017,807
Undesignated, reported in nonmajor:						
Special revenue funds	-	-	-	-	222,943	222,943
Debt service funds	-	-	-	-	262,618	262,618
Total fund balances	2,344,831	1,194,710	1,127,725	910,834	485,561	6,063,661
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 3,788,544	\$ 1,221,094	\$ 1,127,725	\$ 925,351	\$ 647,723	\$ 7,710,437

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds	\$	6,063,661
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets		38,794,161
Deduct: accumulated depreciation		(5,983,351)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues		114,753
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds/loans payable		(33,614,091)
Add: unamortized bond issuance costs		370,407
Add: unamortized loss on refunding		1,157,564
Deduct: unamortized bond premium		(159,972)
Deduct: accrued interest on bonds payable		(649,404)
Deduct: other long-term liabilities		(390,043)
Deduct: compensated absences		(142,662)

Net assets of governmental activities	\$	5,561,023
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The accompanying notes are an integral part of these financial statements.

Dundee Community School:
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Debt Service- 2005	Capital Projects- 2000	Capital Projects- General	Other Governmental Funds	Total Governmental Funds
Revenues						
Local sources:						
Property taxes	\$ 2,295,933	\$ 1,769,215	\$ -	\$ -	\$ 1,044,211	\$ 5,109,359
Other local sources	819,960	18,908	135,122	47,067	664,796	1,685,853
State sources	9,942,862	-	-	14,517	45,612	10,002,991
Federal sources	201,387	-	-	-	157,083	358,470
Total revenues	13,260,142	1,788,123	135,122	61,584	1,911,702	17,156,673
Expenditures						
Instruction:						
Basic programs	6,844,832	-	-	-	-	6,844,832
Added needs:						
Special education	752,415	-	-	-	-	752,415
Other added needs	327,848	-	-	-	-	327,848
Total instruction	7,925,095	-	-	-	-	7,925,095
Support services:						
Pupil	494,129	-	-	-	-	494,129
Instructional services	276,948	-	-	-	-	276,948
General administration	302,050	-	-	-	-	302,050
School administration	857,508	-	-	-	-	857,508
Business	245,575	-	-	-	-	245,575
Maintenance	1,847,058	-	-	-	-	1,847,058
Transportation	758,839	-	-	-	-	758,839
Other support services	364,605	-	-	-	-	364,605
Total support services	5,146,712	-	-	-	-	5,146,712
Community services	50,279	-	-	-	-	50,279
Athletics	-	-	-	-	348,242	348,242
Food service	-	-	-	-	723,490	723,490
Transfers to other districts	110,013	-	-	-	-	110,013
Debt service:						
Principal	-	100,000	-	-	882,027	982,027
Interest and fiscal charges	-	1,078,690	-	-	261,490	1,340,180
Capital outlay and maintenance	-	-	199,711	364,363	-	564,074
Total expenditures	13,232,099	1,178,690	199,711	364,363	2,215,249	17,190,112
Revenues over (under) expenditures	28,043	609,433	(64,589)	(302,779)	(303,547)	(33,439)
Other financing sources (uses)						
Proceeds from School Bond Loan Fund	-	467,375	-	-	-	467,375
Transfers in	-	117,902	-	-	283,906	401,808
Transfers out	(168,074)	-	-	(115,832)	(117,902)	(401,808)
Total other financing sources (uses)	(168,074)	585,277	-	(115,832)	166,004	467,375
Change in fund balances	(140,031)	1,194,710	(64,589)	(418,611)	(137,543)	433,936
Fund balance, beginning of year	2,484,862	-	1,192,314	1,329,445	623,104	5,629,725
Fund balance, end of year	\$ 2,344,831	\$ 1,194,710	\$ 1,127,725	\$ 910,834	\$ 485,561	\$ 6,063,661

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 433,936
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	415,963
Deduct: depreciation expense	(893,649)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: payments received on long-term Durant receivables	(21,544)
Deduct: accruals for long-term State Aid receivables	(110,262)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds or obtaining financing through capital leases increases long-term liabilities in the statement of net assets. Repayment of bond principal or other long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct: proceeds from School Bond Loan Fund	(467,375)
Add: principal payments on bonds and leases	982,027

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds	(152,703)
Deduct: amortization of bond discounts, refunding premium, and issuance costs	(57,000)
Deduct: increase in the accrual for claims payable	(58,327)
Add: decrease in the accrual for compensated absences	17,003

Change in net assets of governmental activities	\$ <u>88,069</u>
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The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2006

	Budget Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Local sources:				
Property taxes	\$ 2,594,410	\$ 2,313,777	\$ 2,295,933	\$ (17,844)
Other local sources	768,193	842,639	819,960	(22,679)
State sources	9,116,183	9,991,648	9,942,862	(48,786)
Federal sources	208,589	211,125	201,387	(9,738)
Total revenues	12,687,375	13,359,189	13,260,142	(99,047)
Expenditures				
Instruction:				
Basic programs	6,947,330	6,881,505	6,844,832	(36,673)
Added needs:				
Special education	774,512	783,829	752,415	(31,414)
Other added needs	328,563	362,945	327,848	(35,097)
Total instruction	8,050,405	8,028,279	7,925,095	(103,184)
Support services:				
Pupil	471,538	491,835	494,129	2,294
Instructional services	303,740	295,370	276,948	(18,422)
General administration	409,101	350,645	302,050	(48,595)
School administration	919,855	878,740	857,508	(21,232)
Business	266,077	268,388	245,575	(22,813)
Maintenance	1,827,956	1,937,913	1,847,058	(90,855)
Transportation	707,659	755,835	758,839	3,004
Other support services	378,715	413,562	364,605	(48,957)
Total support services	5,284,641	5,392,288	5,146,712	(245,576)
Community services	70,441	68,395	50,279	(18,116)
Transfers to other districts	119,000	110,000	110,013	13
Total expenditures	13,524,487	13,598,962	13,232,099	(366,863)
Revenues over (under) expenditures	(837,112)	(239,773)	28,043	267,816
Other financing (uses)				
Transfers out	(295,017)	(282,517)	(168,074)	114,443
Change in fund balance	(1,132,129)	(522,290)	(140,031)	382,259
Fund balance, beginning of year	2,484,862	2,484,862	2,484,862	-
Fund balance, end of year	\$ 1,352,733	\$ 1,962,572	\$ 2,344,831	\$ 382,259

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Statement of Fiduciary Net Assets
June 30, 2006

	Private- Purpose Trust	Agency Fund
Assets		
Cash and cash equivalents	\$ 84,720	\$ 108,622
Investments	100,668	50,000
Accounts receivable	<u>6,215</u>	<u>-</u>
Total assets	191,603	<u><u>\$ 158,622</u></u>
Liabilities		
Due to student groups	<u>-</u>	<u><u>\$ 158,622</u></u>
Net assets		
Reserved for scholarships	<u><u>\$ 191,603</u></u>	

The accompanying notes are an integral part of these financial statements.

Dundee Community Schools
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2006

	Private- Purpose Trust
	<hr/>
Additions	
Private donations	\$ 25,502
Interest	<hr/> 2,100
Total additions	27,602
 Deductions	
Scholarships	<hr/> 19,451
 Change in net assets	 8,151
 Net assets, beginning of year	 <hr/> 183,452
 Net assets, end of year	 <hr/> <hr/> \$ 191,603

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Dundee Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be included in its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2005 debt service fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs of the 2005 Building and Site Bonds.

The *2000 capital projects fund* accounts for the construction of a new high school building, as well as, the acquisition of capital assets and the renovation of certain other District facilities. These projects are funded by a general obligation bond issue.

The *general capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements. These projects are funded primarily through contributions made from the District's general fund and accumulated fund balance.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *debt service* funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *private-purpose trust fund* accounts for contributions earmarked for scholarships available to qualifying students of the District.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, liabilities and equity

1. *Deposits and investments*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

3. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-50
Vehicles	8
Equipment	5-20

4. *Compensated absences*

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees accrue 10-12 days of sick leave per year, which accumulates if not used. Sick time is paid upon termination only to employees who have ten or more years of service with the District. The maximum payout upon termination varies, depending on the employee's classification (teacher, administrator, etc.).

5. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

6. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

B. Excess of expenditures over appropriations

During the year ended June 30, 2006, the District incurred expenditures in excess of the amount appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund:			
Support services:			
Pupil	\$ 491,835	\$ 494,129	\$ 2,294
Transportation	755,835	758,839	3,004
Transfers to other districts	110,000	110,013	13

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 4,702,937
Investments	920,000
Statement of Fiduciary Net Assets	
Private-purpose trust:	
Cash and cash equivalents	84,720
Investments	100,668
Agency fund:	
Cash and cash equivalents	108,622
Investments	<u>50,000</u>
	<u>\$ 5,966,947</u>
 Bank deposits	 <u>\$ 5,966,947</u>

Statutory Authority

State statutes authorize the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The District held no investments at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$5,875,426 of the District's bank balance of \$6,291,846 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The District held no investments at year-end.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. The District held no investments at year-end.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amounts not Expected to be Collected Within One Year</u>
Receivables:				
Accounts	\$ -	\$ 12,698	\$ 12,698	\$ -
Intergovernmental	1,819,573	-	1,819,573	-
Durant settlement	<u>29,034</u>	<u>85,719</u>	<u>114,753</u>	<u>109,272</u>
	<u>\$ 1,848,607</u>	<u>\$ 98,417</u>	<u>\$ 1,947,024</u>	<u>\$ 109,272</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

Unavailable:

Durant receivable due from State annually through 2013	\$ 114,753
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Unearned:

Grant receipts in excess of cumulative Expenditures	<u>36,513</u>
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\$ 151,266

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 717,154	\$ -	\$ -	\$ 717,154
Capital assets being depreciated:				
Land improvements	410,640	16,627	-	427,267
Buildings and improvements	35,952,708	249,978	-	36,202,686
Vehicles	1,278,064	149,358	185,186	1,242,236
Equipment	204,818	-	-	204,818
Total capital assets being depreciated	37,846,230	415,963	185,186	38,077,007
Less accumulated depreciation for:				
Land improvements	319,682	14,169	-	333,851
Buildings and improvements	3,863,151	754,871	-	4,618,022
Vehicles	941,100	114,401	185,186	870,315
Equipment	150,955	10,208	-	161,163
Total accumulated depreciation	5,274,888	893,649	185,186	5,983,351
Total capital assets being depreciated, net	32,571,342	(477,686)	-	32,093,656
Governmental activities capital assets, net	\$ 33,288,496	\$ (477,686)	\$ -	\$ 32,810,810

Depreciation expense of \$893,649 was charged to the function “unallocated depreciation”, and was not allocated to the other functions.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Financial Statements:			
Accounts payable	\$ 207,707	\$ 438	\$ 208,145
Salaries payable	926,164	-	926,164
Due to other governments	<u>220,725</u>	<u>-</u>	<u>220,725</u>
	<u>\$1,354,596</u>	<u>\$ 438</u>	<u>\$1,355,034</u>
Government-wide Financial Statements:			
Accrued interest on long-term debt			<u>649,404</u>
			<u>\$2,004,438</u>

E. Interfund receivables, payables and transfers

At June 30, 2006, interfund receivables and payables consisted of the following:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 48,008	\$ 23,570
Debt Service-2005	7,444	26,384
Capital Projects-General	-	14,517
Nonmajor governmental funds	<u>85,024</u>	<u>76,005</u>
	<u>\$ 140,476</u>	<u>\$ 140,476</u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended June 30, 2006, interfund transfers included \$168,074 and \$115,832 in transfers from the General Fund and General Capital Projects Fund, respectively, to the Athletic nonmajor governmental fund in order to subsidize the athletics program. There was also a transfer of \$117,902 representing the remaining balance in a nonmajor debt service fund to the major 2005 Debt Service fund.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 30,552,746	\$ -	\$ 982,027	\$ 29,570,719	\$ 982,360
Unamortized loss on bond refunding	(1,205,796)	-	(48,232)	(1,157,564)	-
Unamortized bond premium	166,638	-	6,666	159,972	-
School Bond Loan Fund	3,575,997	467,375	-	4,043,372	-
Claims payable	331,716	58,327	-	390,043	-
Compensated absences	<u>159,665</u>	<u>-</u>	<u>17,003</u>	<u>142,662</u>	<u>142,662</u>
	<u>\$ 33,580,966</u>	<u>\$ 525,702</u>	<u>\$ 957,464</u>	<u>\$ 33,149,204</u>	<u>\$ 1,125,022</u>

Bonds payable at June 30, 2006, are comprised of the following issues:

General Obligation Bonds:

\$900,000 1996 Building and Site Bonds for roof replacement on existing buildings, installments of \$50,000 to \$230,000 through May 1, 2007; interest at 5.25%	\$ 195,000
\$30,975,000 2000 Building and Site Bonds for new construction of high school and remodeling to existing building, due in annual installments of \$675,000 to \$1,275,000 through 2030; interest at 5.25% to 5.50%	3,425,000
\$600,000 2001 Building and Site Bonds for roof replacement on existing buildings, due in annual installments of \$5,000 to \$170,000 through May 1, 2009; interest at 4.10% to 6.00%	340,000

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

\$25,625,000 2005 Refunding Bonds for refunding a portion of the 2000 Building and Site Bonds, due in annual installments of \$100,000 to \$1,300,000 through 2030; interest at 3.00% to 5.00%	\$ 25,525,000
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* \$145,172 1998 Durant School Improvement Bonds, due in annual installments of \$7,027 to \$35,086 through 2013; interest at 4.8%	<u>85,719</u>
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Total General Obligation Bonds Payable	<u>\$ 29,570,719</u>
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* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

At year end, defeased bonds outstanding were \$24,200,000, which are scheduled to be called and paid by the escrow agent in the fiscal year ended June 30, 2010.

Compensated absences and claims payable are generally liquidated by the general fund.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2007	\$ 982,360	\$ 1,352,464	\$ 2,334,824
2008	1,147,712	1,307,848	2,455,560
2009	1,203,079	1,250,558	2,453,637
2010	1,058,464	1,164,557	2,223,021
2011	1,085,086	1,135,776	2,220,862
2012-2016	5,994,018	4,883,930	10,877,948
2017-2021	6,400,000	3,529,154	9,929,154
2022-2026	6,500,000	2,079,350	8,579,350
2027-2031	<u>5,200,000</u>	<u>585,000</u>	<u>5,785,000</u>
	<u>\$ 29,570,719</u>	<u>\$ 17,288,637</u>	<u>\$ 46,859,356</u>

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2006, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 3,575,997	\$ 408,219	\$ 3,984,216
Additions	<u>467,375</u>	<u>14,615</u>	<u>481,990</u>
Ending balance	<u>\$ 4,043,372</u>	<u>\$ 422,834</u>	<u>\$ 4,466,206</u>

G. Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, employee injuries/workers' compensation, property and casualty and health claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

B. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 29 are recognized as revenue when collected.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Defined benefit pension plan

Plan Description

The Dundee Community Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Dundee Community Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.34% of annual covered payroll. The contribution requirements of plan members and the Dundee Community Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2006, 2005 and 2004 were \$1,195,342, \$1,107,745, and \$915,347, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

DUNDEE COMMUNITY SCHOOLS

Notes to the Financial Statements

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Restatements

Beginning net assets of governmental activities increased by \$70,000 to properly reflect a reduction in debt payments from the 2005 bond refunding.

* * * * *

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS

Dundee Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue</u>		<u>Debt</u>	
	<u>Food Service</u>	<u>Athletic</u>	<u>1993 Debt</u>	<u>1996 Debt</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 200,369	\$ 64,333	\$ -	\$ 77,543
Accounts receivable	11,983	715	-	-
Due from other funds	245	21,471	-	2,374
<u>TOTAL ASSETS</u>	<u>\$ 212,597</u>	<u>\$ 86,519</u>	<u>\$ -</u>	<u>\$ 79,917</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ -	\$ 438	\$ -	\$ -
Due to other funds	47,996	27,739	-	-
Deferred revenue	-	-	-	-
Total liabilities	47,996	28,177	-	-
Fund balances				
Unreserved, undesignated	164,601	58,342	-	79,917
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 212,597</u>	<u>\$ 86,519</u>	<u>\$ -</u>	<u>\$ 79,917</u>

Service			Total Nonmajor Governmental Funds
1996-2001 Debt	2000 Debt	Durant	
\$ 9,227	\$ 112,810	\$ -	\$ 464,282
-	-	85,719	98,417
1,531	59,403	-	85,024
\$ 10,758	\$ 172,213	\$ 85,719	\$ 647,723

\$ -	\$ -	\$ -	\$ 438
270	-	-	76,005
-	-	85,719	85,719
270	-	85,719	162,162

10,488	172,213	-	485,561
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\$ 10,758	\$ 172,213	\$ 85,719	\$ 647,723
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Dundee Community Schools
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue		Debt	
	Food Service	Athletic	1993 Debt	1996 Debt
Revenues				
Local sources:				
Property taxes	\$ -	\$ -	\$ 46	\$ 255,257
Other local sources	544,162	109,817	951	2,154
State sources	35,418	-	-	-
Federal sources	157,083	-	-	-
Total revenues	<u>736,663</u>	<u>109,817</u>	<u>997</u>	<u>257,411</u>
Expenditures				
Athletics	-	348,242	-	-
Food service	723,490	-	-	-
Debt service:				
Principal	-	-	-	195,000
Interest and fiscal charges	-	-	-	22,614
Total expenditures	<u>723,490</u>	<u>348,242</u>	<u>-</u>	<u>217,614</u>
Revenue over (under) expenditures	<u>13,173</u>	<u>(238,425)</u>	<u>997</u>	<u>39,797</u>
Other financing sources (uses)				
Transfers in	-	283,906	-	-
Transfers out	-	-	(117,902)	-
Total other financing sources (uses)	<u>-</u>	<u>283,906</u>	<u>(117,902)</u>	<u>-</u>
Change in fund balances	13,173	45,481	(116,905)	39,797
Fund balance, beginning of year	<u>151,428</u>	<u>12,861</u>	<u>116,905</u>	<u>40,120</u>
Fund balance, end of year	<u>\$ 164,601</u>	<u>\$ 58,342</u>	<u>\$ -</u>	<u>\$ 79,917</u>

Service			Total Nonmajor Governmental Funds
1996-2001 Debt	2000 Debt	Durant	
\$ 5,898	\$ 783,010	\$ -	\$ 1,044,211
501	7,211	-	664,796
-	-	10,194	45,612
-	-	-	157,083
6,399	790,221	10,194	1,911,702
-	-	-	348,242
-	-	-	723,490
5,000	675,000	7,027	882,027
15,334	220,375	3,167	261,490
20,334	895,375	10,194	2,215,249
(13,935)	(105,154)	-	(303,547)
-	-	-	283,906
-	-	-	(117,902)
-	-	-	166,004
(13,935)	(105,154)	-	(137,543)
24,423	277,367	-	623,104
\$ 10,488	\$ 172,213	\$ -	\$ 485,561



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 30, 2006

Board of Education
Dundee Community Schools
Dundee, Michigan

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **DUNDEE COMMUNITY SCHOOLS** as of and for the year ended June 30, 2006, and have issued our report thereon dated August 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dundee Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect Dundee Community School's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

During our audit procedures on property taxes, we noted that the amounts recorded as revenue in the general ledger for the General Fund and Debt Service Funds did not reconcile with amounts reported as levied to the State of Michigan. As a result, it appears the District reported the collection of amounts in excess of the amounts levied. An audit adjustment was made to correct for the apparent over collection.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dundee Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



August 30, 2006

To the Board of Education of
Dundee Community Schools
Dundee, Michigan

We have audited the financial statements of Dundee Community Schools for the year ended June 30, 2006, and have issued our report thereon dated August 30, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated July 21, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Dundee Community Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Dundee Community Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Dundee Community Schools are described in Note 1 to the financial statements. During the year ended June 30, 2006, the District implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", which provides for modified disclosures for cash and investments held. We noted no transactions entered into by Dundee Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimate of the useful lives of depreciable fixed assets. This based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Dundee Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Dundee Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Dundee Community Schools' financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Dundee Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

Dundee Community Schools
Comments and Recommendations
For the Year Ended June 30, 2006

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated August 30, 2006 on the financial statements of Dundee Community Schools.

Property Tax Receipts/Reconciliations

As in our prior year, during our audit procedures on property taxes, we again noted that the amounts recorded as revenue in the general ledger for the General Fund and Debt Service Funds did not reconcile with amounts reported as levied to the State of Michigan. As a result, it appears as though the District may have reported an over collection of significant amounts of revenue from property taxes.

We recommend that the District perform a reconciliation of the amounts receipted into the general ledger to the amounts reported by the County to the State of Michigan. This reconciliation process will assist the District in identifying any potential discrepancies that could affect the amount of State Aid paid to the District. We encourage the District to seek the assistance of appropriate officials from other governments (the townships, County, and the State of Michigan) to ensure that the District receives all revenue for which it is entitled.

Journal Entries

As a part of our audit, we examined several journal entries in compliance with Statements of Auditing Standards (SAS) 99. We noted that journal entries prepared by the Business Manager are not initialed or approved by someone other than the preparer as a check for journal entry appropriateness and accuracy. Although the District's journal entries are few in number and there was no evidence of management override, this is considered a deficiency in internal control. In order to enhance internal controls in this area, we recommend that all journal entries be reviewed and initialed by an appropriate individual to ensure effective internal controls in this area.

Payroll Processes

During the course of our audit, we noted that payroll registers are not reviewed and approved by an individual other than the person responsible for preparing the payroll checks. The independent review and approval of payroll registers is an important internal control, especially given that the District's largest expenditures are payroll and related benefits. In order to enhance internal controls in this area, we recommend that an appropriate individual review and approve the payroll register prior to the payroll checks being run.

Internal Controls over Pool Operations

In a separate report dated May 10, 2006 we recommended implementing certain procedures to enhance internal controls for pool receipts. Cash receipts are particularly susceptible to improper handling. As of year end, it appears these procedures have not been executed. We strongly recommend the District implement procedures to ensure cash receipts are properly collected and reported.